

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 EB-07 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /099 W
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P R 020500Z DEC 76

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 5373

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: ENRG, EALR, MY

SUBJECT: PETRONAS SIGNS PRODUCTION SHARING AGREEMENT WITH SHELL

REF: KUALA LUMPUR 6876

1. SUMMARY: SHELL HAS SIGNED PRODUCTION SHARING CONTRACT WITH PETRONAS. EXXON EXPECTED TO SIGN VERY SOON. TERMS OF CONTRACTS SEEN AS POSITIVE INCENTIVE FOR FURTHER INVESTMENT IN MALAYSIAN PETROLEUM INDUSTRY. CONOCO HAS BEGUN NEGOTIATIONS WITH PETRONAS. AGREEMENT WITH OIL COMPANIES SHOULD IMPROVE LOCAL INVESTMENT CLIMATE. END SUMMARY.

2. SHELL SABAH, SHELL SARAWAK AND PECTIN MALAYSIA (A SHELL USA SUBSIDIARY) SIGNED PRODUCTION SHARING AGREEMENTS WITH PETRONAS ON NOV. 30. THE AGREEMENTS COVER OIL AND GAS AND ARE VALID FOR 20 YEARS WITH OIL AGREEMENTS EXTENDABLE FOR FOUR YEARS AND GAS AGREEMENTS EXTENDABLE FOR 14 YEARS.

ACCORDING PRESS REPORTS, THE AGREEMENT CALLS FOR A MAXIMUM
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OF 20 PERCENT OF PRODUCTION TO BE ALLOTTED TO COMPANIES FOR

COST RECOVERY FOR OIL (WHICH WE CALCULATE MEANS \$2.67 PER BARREL AT CURRENT PRICES), AND 25 PERCENT FOR GAS. TEN PERCENT OF PRODUCTION WILL BE SPLIT BETWEEN THE FEDERAL GOVERNMENT AND THE RELEVANT STATE GOVERNMENTS AS ROYALTIES.

3. THE REMAINING 70 PERCENT WILL BE SPLIT BETWEEN PETRONAS AND THE OIL COMPAINES ON A 70-30 BASIS (PETRONAS RECEIVING THE LARGER SHARE). PETRONAS AND COMPANIES WILL PAY 45 PERCENT INCOME TAX ON THESE SHARES TO FEDERAL GOVERNMENT. THE OIL COMPAINES HAVE ALSO AGREED TO PAY PETRONAS, IN ADDITION, 70 PERCENT OF ANY ADDITIONALITY WHICH THEY WOULD RECEIVE FROM SELLING PROFIT OIL WHEN THE PRICE IS ABOVE \$12.72 PER BARREL.

4. PETRONAS WILL RECEIVE \$1 MILLION FROM THE COMPANIES FOR THE DISCOVERY OF EACH COMMERCIALY VIABLE OIL FIELD THEY DISCOVER. A PRODUCTION BONUS OF \$2 MILLION WILL BE PAID TO PETRONAS WHENEVER AVERAGE OIL PRODUCTION EXCEEDS 50,000 BARRELS PER DAY, OVER A THREE MONTH PERIOD, ON ANY GIVEN OIL FIELD. ACCORDING TO SHELL SPOKESMAN THESE TERMS WILL PROVIDE SUFFICIENT INCENTIVES FOR FURTHER DEVELOPMENT AND INVESTMENT BY SHELL IN MALAYSIA.

5. EXXON HAS NOT YET SIGNED CONTRACT WITH PETRONAS BUT HAS REACHED AGREEMENT ON ALL BUT ONE ISSUE WHICH EXPECTED TO BE SATISFACTORILY RESOLVED PERHAPS BY TOMORROW.

6. CONTINENTAL OIL OIL COMPANY (CONOCO) HAS BEGUN NEGOTIATING WITH PETRONAS AND EXPECTS FULLTIME NEGOTIATIONS TO BEGIN AS SOON AS EXXON CONTRACT SIGNED. ACCORDING TO OIL INDUSTRY SOURCES CONOCO NEGOTIATIONS EXPECTED PROVIDE NON-PRODUCING COMPANIES FRAME OF REFERENCE FOR INVESTMENT DECISIONS IN MALAYSIAN UPSTREAM PETROLEUM INDUSTRY. UNDERHILL

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